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FISCAL IMPACT STATEMENT

LS 6139

BILL NUMBER: SB 285

NOTE PREPARED: Apr 9, 2009

BILL AMENDED: Apr 9, 2009

SUBJECT: Property Tax Payments.

FIRST AUTHOR: Sen. Holdman

FIRST SPONSOR: Rep. Lehman

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Property Tax Payments:* This bill permits a county legislative body to authorize the transmission by electronic mail of property tax statements and related information. It charges the county treasurer and county auditor with the administration of the program. It requires the designation of a single electronic mail address for joint owners and entities other than individuals. If the electronic mail is not received, requires the county treasurer to mail a hard copy of the statement. It directs the Department of Local Government Finance to create a form for taxpayers to authorize the transmission by electronic mail.

The bill allows for automatic deductions of payments for property taxes and special assessments from any account held by a financial institution, not just from a checking account. It requires a county to distribute to political subdivisions in the county at the normal semiannual distribution date revenue from monthly installment property tax collections.

Enterprise Zones: The bill provides that an enterprise zone shall not expire between December 1, 2008, and January 1, 2015, unless the fiscal body of the municipality in which the enterprise zone is located adopts a resolution requesting the enterprise zone board to allow the zone to expire.

Appeal of Assessment of Industrial Property: The bill requires county fiscal body approval of the county assessor's proposed appeal expenditures to appeal an assessment of an industrial facility by the department of local government finance.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Property Tax Payments:* This bill directs the Department of Local

Government Finance (DLGF) to design and promote a form for taxpayers to authorize the county to transmit their property tax statements via electronic mail. This must be completed before 2010. This could add administrative duties to the DLGF. Ultimately, the source of funds and resources required to satisfy the requirements of this bill would depend upon legislative and administrative actions.

Explanation of State Revenues: (Revised) *Enterprise Zones:* This bill permits the fiscal body of a municipality in which an enterprise zone is located to delay the expiration of the initial ten-year term of the enterprise zone. Enterprise zones are eligible for certain tax incentives including the Employment Tax Deduction, the Employment Expense Credit, the Loan Interest Credit, the Neighborhood Assistance Credit, and the Investment Cost Credit. These incentives may be taken against Adjusted Gross Income (AGI), Financial Institutions, or the Insurance Premiums Tax liabilities. They reduce revenue to the General Fund. If the fiscal body of the municipality decides to extend the initial term of the enterprise zone, the revenue to the state would continue to be reduced for the duration of the extension.

Background Information on Enterprise Zones Incentives:

a. Employee Tax Deduction: This tax deduction is for qualified employees of an enterprise zone business. The qualified employee is an individual who is employed by a taxpayer where the employee's principal place of residence is in the enterprise zone where the employee is employed. Qualified employees include employees of a financial institution, insurance company, and an international banking facility. Also included are employees of a non profit entity, the state, a political subdivision, or the United States Government. The qualified employee is entitled to a deduction from their AGI equal to the lesser of; (1) half of the AGI for the taxable year earned as a qualified employee; or (2) \$7,500.

In tax year 2006, 3,725 individuals claimed about \$25 M in deductions for qualified enterprise zones.

b. Employment Expense Credit: This credit is for employers that hire qualified employees that live and work half of the time in the enterprise zone. The credit is equal to the lesser of 10% multiplied by the qualified increased employment expenditures of the taxpayer for the taxable year; or \$1,500 multiplied by the number of qualified employees employed by the taxpayer during the taxable year. The tax credit can be carried forward for 10 years or carried back for three years.

For tax year 2006, 136 individuals claimed about \$250,000 in credits for qualified enterprise zones. In tax year 2005, 52 corporate taxpayers claimed about \$918,000 in Employment Expense Credits for qualified enterprise zones.

c. Loan Interest Credit: The Loan Interest Credit is a non-refundable tax credit that a taxpayer may claim against the AGI Tax, the Financial Institutions Tax, or the Insurance Premiums Tax. The credit is equal to 5% of the interest a taxpayer receives during the taxable year on qualified loans to businesses or individuals for specified uses in an enterprise zone. The amount of the credit equals 5% multiplied by the amount of interest received by the taxpayer during the taxable year from the qualified loans. The credit can be carried forward for 10 years.

In tax year 2005, 28 corporate taxpayers claimed about \$2.3 M in credits for qualified enterprise zones. In tax year 2006, 21 individual taxpayers claimed about \$13,000 in credits for qualified enterprise zones.

d. Neighborhood Assistance Credit: The Neighborhood Assistance Credit is for Indiana taxpayers who contributed to individuals, groups or neighborhood organizations, or who engage in activities to upgrade

economically disadvantaged areas for economically disadvantaged households. This credit is limited to the lesser of 50% of the amount contributed or invested, state income tax due, or \$25,000 in any taxable year. The credit can be applied against the taxpayer's AGI tax liability or the Financial Institutions Tax. The tax credit may not be refunded, carried back, or carried forward. The total amount of Neighborhood Assistance Credit allowed to all taxpayers in any state fiscal year is limited to \$2.5 M.

e. Investment Cost Credit: Under current statute, the Investment Cost Credit may be claimed against the AGI Tax by taxpayers purchasing an ownership interest (an equity investment) in an enterprise zone business. The Investment Cost Credit is equal to a maximum of 30% of the equity investment. The credit percentage allowed (up to 30%) varies depending upon the type of investment, the type of business, and the number of jobs created. The credit is non-refundable, but a taxpayer may carry over excess credits to subsequent taxable years.

In tax year 2006, 7 individual taxpayers claimed about \$22,000 in Investment Cost Credits for qualified enterprise zones. Data for corporate taxpayers was not available.

Revenue from the AGI Tax on individuals and corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund.

Explanation of Local Expenditures: (Revised) *Property Tax Payments:* For taxes payable in 2010 and after, this bill authorizes counties to transmit property tax statements and related information to taxpayers via electronic mail. This could result in startup costs for those counties that choose to implement its provisions. However the startup costs could be mitigated by savings with reduced costs of mailing and processing tax statements.

If it has not already done so, each county would also have to either purchase or contract for electronic mail capability; this could include the purchase or upgrade of computers, software, and continuing technical support.

Additionally, the county would have to maintain a list of those taxpayers who choose electronic mail tax bills and to determine whether these taxpayers actually did receive their statements via this medium. If the county determines that the taxpayer did not receive the tax bill via electronic mail, it would have to send the statement to the taxpayer via regular mail. The deadline for payment would be the due date on the original statement transmitted via electronic mail.

On the other hand, counties should generally see a decline in operating costs due to a decrease in regular mailings. Depending on how a county manages its tax billing process and the number of taxpayers who choose the electronic mail option, the decrease in operating costs could be substantial. For example, one county indicated that it spends between \$1.00 and \$1.50 to process a tax bill. This includes cost of printing, transportation (the county currently contracts out the insertion of the tax bills into the envelopes but must transport the bills and envelopes to the contractor), computer accessories (printer cartridges, toner etc), and paper. Once the startup costs for setting up the database for e-mail transmission have been covered, the county estimates that it will save close to \$1 per each tax bill sent out via this medium; as a minimum counties would be able to save on the postage costs. Additionally, counties that have to send out both provisional bills and reconciliation statements for a particular pay year could see their savings double for that pay year.

Background on Property Tax Payments: Only 2 of the 92 counties do not currently have e-mail capability

in the treasurer's office. Current law permits automatic payments from checking accounts. Additionally, 22 counties, including the 2 counties alluded to above, have contracted with a service that allows their taxpayers to pay their bills on-line or by phone. Taxpayers pay their bills by credit card, usually for a fee that the taxpayer also pays. At least one county permits its taxpayers to pay at selected banks that charge a fee for the service, and this county also notifies taxpayers (at their request) about pending due dates. Some counties also notify taxpayers via e-mail, at their request, when property tax statements become available for review.

There are many options for counties who desire to obtain e-mail capability or upgrade their current service. Depending on the service, setup fees can range from \$0 to about \$600 with average monthly payments ranging from about \$10 to \$120.

Appeal of Assessment of Industrial Property: Under current law, the DLGF is responsible for assessing industrial facilities (real property only) with an estimated true tax value of at least \$25 M (qualified industrial property) in those counties with a population greater than 400,000 but less than 700,000. A taxpayer or the county assessor may appeal the assessment to the Indiana Board of Tax Review (IBTR). Based on current population estimates and parcel-level data, the current statute applies only to industrial facilities in Lake County.

Under this bill, a taxpayer still has the option of appealing the assessment. The county assessor, however, may not spend public money to appeal the assessment unless the county fiscal body adopts a resolution approving the proposed expenditure, and also appropriates the total amount of the proposed expenditure.

The fiscal impact of this bill would depend on whether the county fiscal body would appropriate enough funds for the county assessor to pursue appeals of qualified industrial property with the IBTR. The bill would probably have no impact on individual taxpayers who were intent on filing an appeal.

Explanation of Local Revenues: (Revised) *Property Tax Payments:* The bill also extends automatic deduction of property tax payments from accounts other than checking accounts such as savings accounts. As noted above, some counties permit on-line payments via credit cards. As a result, both the counties and taxpayers would have additional tools to manage their property tax payments. The bill stipulates that if a taxpayer elects to receive his tax bill by electronic mail and did not receive it by the due date, the county is obliged to send the tax bill via regular mail to the taxpayer. The deadline for payment would still be the due date on the original statement transmitted via electronic mail. The impact on revenues would be negligible.

Enterprise Zones: Enterprise zones are typically established to encourage investment and job growth in economically distressed areas. Under current law, the federal government and the IEDC board may designate certain areas within Indiana as enterprise zones. An enterprise zone expires after ten years but is eligible for two five-year renewals based on performance reviews by the IEDC Board. The enterprise zone may not be renewed after the expiration of the second five-year period.

Under this bill, if the initial ten-year period for a new or re-designated enterprise zone is due to end between December 1, 2008 and December 31, 2014, the enterprise zone shall not expire unless the fiscal body of the municipality in which the enterprise zone is located adopts a resolution requesting the IEDC Board to allow the enterprise zone to do so. The fiscal body has to submit a copy of the resolution to the Board at least sixty days before the expiration date of the enterprise zone. The Board, in turn, is directed to permit the enterprise zone to expire when the fiscal body so requests. This bill, therefore, potentially extends the initial term of a new or re-designated enterprise zone, that was scheduled to end between December 1, 2008 and December 31, 2014, to December 31, 2014.

The fiscal impact of this proposal would depend on whether the fiscal body of the municipality decides to extend the initial term of the enterprise zone past the ten year point (up to December 31, 2014). If the fiscal body decides to honor the ten year term as per current law then there is no fiscal impact under this bill. If, on the other hand, the fiscal body of the municipality decides to extend the initial term past the ten year point then during the extension qualified employees within the enterprise zone would continue to receive the Employee Tax Deduction that they received during the initial ten-year period (see *Background Information on Enterprise Zone Incentives* in the *Explanation of State Revenues*); additionally, businesses would also continue receiving the Enterprise Zone property tax deduction. This bill would have no impact on the two additional five year terms that the IEDC may grant the enterprise zone.

Income tax deductions reduce the tax base for local option income taxes. As a result, taxing units in which enterprise zones are located would continue to experience a minimal reduction in revenue from the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT). The length of additional time the units would experience this reduction would depend on how long the initial ten year period was extended (up to December 31, 2014).

State Agencies Affected: DLGF, IEDC.

Local Agencies Affected: County auditors; County treasurers; Lake County Assessor; Lake County Fiscal body; Fiscal bodies of municipalities.

Information Sources: Directory of County Officials, 2007-2008; County treasurers; County websites; Cindy Land and Thomas R. Creasser, II, Marion County Treasurer's Office, 317-327-4040; Roger A. Bainbridge, Grant County Treasurer's Office, 765-668-6556; OFMA Property Tax Database; OFMA Income Tax Databases; Stats Indiana Population Estimates, <http://www.stats.indiana.edu>.

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